

Message Text

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E.O. 11652:GDS

TAGS:EFIN

SUBJECT:ACTION MEMORANDUM: SIMON LETTER ON INDIA DEBT RE-
SCHEDULING (S/S NO. 7504634)

FOR THE SECRETARY FROM ENDERS AND SOBER

1. THE PROBLEM

SECRETARY SIMON HAS WRITTEN TO YOU STRONGLY OPPOSING DEBT
RESCHEDULING FOR INDIA THIS YEAR, AND PROPOSING THAT TREA-
SURY AND STATE PROMPTLY ADVISE INDIA, THE OTHER CREDITORS,
AND CONGRESS THERE WILL BE NO SUCH RESCHEDULING. EB, NEA
AND AID BELIEVE IT IS PREMATURE TO RULE OUT RESCHEDULING FOR
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INDIA AT THIS TIME, AND RECOMMEND THAT YOUR REPLY TO SIMON

ADVOCATE FINESSING THE DEBT RESCHEDULING ISSUE, AT LEAST FOR NOW, AND SUPPORT AN APPROACH THAT WOULD SUBSUME DEBT RELIEF IN THE LARGER FRAMEWORK OF A VOLUNTARY CONSORTIUM PROGRAM FOR FOREIGN EXCHANGE SUPPORT, INCLUDING FOOD AID.

THE TEXT OF SECRETARY SIMON'S LETTER IS ATTACHED AT TAB B.
A DRAFT RESPONSE IS AT TAB A.

2. BACKGROUND/ANALYSIS

THE U.S. HAS PARTICIPATED IN DEBT RELIEF FOR INDIA UNDER WORLD BANK AEGIS SINCE 1968. AT THE TIME WE AGREED TO RESCHEDULE LAST YEAR, AS PART OF A DEAL WITH TREASURY, WE ADVISED ALL CONCERNED THAT WE WANTED ANY FUTURE DEBT RESCHEDULING FOR INDIA NEGOTIATED IN A CREDITOR CLUB RATHER THAN THE CONSORTIUM. WE HAVE FOUND LITTLE SUPPORT FOR THE CREDITOR CLUB APPROACH AMONG OTHER CREDITORS, AND INDIA HAS ASKED US TO RECONSIDER OUR POSITION, FEARING IT ALSO UNDERMINES THEIR CHANCES OF OBTAINING DEBT RELIEF FROM OTHER CONSORTIUM MEMBERS.

3. THE ISSUE OF DEBT RESCHEDULING FOR INDIA WILL BE DISCUSSED AT AN APRIL MEETING OF THE WORLD BANK SPONSORED AID-TO-INDIA CONSORTIUM. FOR THE U.S., RESCHEDULING INDIA DEBT, VIA THE CONSORTIUM, AND PERHAPS EVEN A CREDITOR CLUB, IS NOW A QUESTIONABLE PROCEDURE IN VIEW OF CONGRESSIONAL ATTITUDES TOWARDS BOTH DEBT RELIEF IN GENERAL AND AID TO INDIA IN PARTICULAR. ON THE OTHER HAND, INDIA CONSIDERS DEBT RELIEF THE MOST EFFECTIVE FORM OF AID AND A U.S. POSITION OPPOSING SUCH RELIEF COULD HAVE A NEGATIVE IMPACT ON BILATERAL INDO-U.S. RELATIONS.

4. WE ARE TRYING TO SIDESTEP THE DEBT RESCHEDULING DILEMMA BY FOCUSING CONSORTIUM ATTENTION ON IMPROVING THE QUALITY OF AID TO INDIA, BY INCREASING THE AVAILABILITY OF "FREE FOREIGN EXCHANGE", A BROADER APPROACH THAN JUST DEBT RELIEF. WE ARE URGING A VOLUNTARY CONSORTIUM PROGRAM OF HIGH QUALITY AID WITH EACH CONSORTIUM MEMBER BEING FREE TO USE ANY AND ALL METHODS (CASH, UNTIED AID, DEBT RELIEF, LOCAL COST FINANCING, OR FOOD AND FERTILIZER AID) DEPENDING
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ON ITS INDIVIDUAL CAPACITY AND POLICY PREFERENCES. WE ARE DISCUSSING THE APPROACH WITH THE WORLD BANK, WHICH FLOATED A SIMILAR PROPOSAL LAST YEAR, AND OTHER CREDITORS.

5. IF WE ARE SUCCESSFUL IN GETTING THE CONSORTIUM TO ACCEPT THIS APPROACH, WE WOULD BE ABLE TO GET CREDIT FOR TITLE I PL-480 ASSISTANCE AS A FREE FOREIGN EXCHANGE CONTRIBUTION AND WOULD NOT HAVE TO RESCHEDULE ANY ADDITIONAL

DEBT IN THE COMING YEAR, THUS AVOIDING CONGRESSIONAL PROBLEMS. IF WE CANNOT SELL THE IDEA AT THE APRIL CONSORTIUM MEETING, WE HAVE TIME TO REVIEW OUR POSITION ON DEBT RESCHEDULING BEFORE THE FORMAL CONSORTIUM MEETING IN JUNE.

6. TREASURY, WHICH HAS TRADITIONALLY OPPOSED DEBT RELIEF FOR INDIA, PUSHED HARD FOR THE CREDITOR CLUB APPROACH. NOW THAT IT HAS FALLEN FLAT, TREASURY WANTS US TO DROP DEBT RELIEF ENTIRELY. IT CONSIDERS THE "FREE FOREIGN EXCHANGE" IDEA AS IRRELEVANT TO ITS MAIN GOAL -- AN EARLY

AND FINAL NO ON DEBT RELIEF. NEA, EB, AND AID THINK

TREASURY IS JUMPING THE GUN AND SEE NO NEED TO FORECLOSE OUR OPTIONS AT THIS TIME ALTHOUGH EB BELIEVES THAT DEBT RELIEF FOR INDIA WOULD BE HARD TO JUSTIFY ON ECONOMIC/CONGRESSIONAL GROUNDS SHOULD THE PROGRAMMED INCREASES IN OTHER FORMS OF U.S. ASSISTANCE TO INDIA MATERIALIZE. NEA BELIEVES FAILURE FOR THE U.S. TO PARTICIPATE IN DEBT RELIEF, IN THE ABSENCE OF A MUTUALLY ACCEPTABLE ALTERNATIVE ARRANGEMENT SUCH AS THE "FREE FOREIGN EXCHANGE" APPROACH, WOULD JOLT INDO-AMERICAN RELATIONS. THEY BELIEVE ONE REASON FOR RELATIVE INDIAN RESTRAINT IN REACTING TO OUR LIFTING THE ARMS EMBARGO IS THEIR DESIRE FOR ASSISTANCE FROM US. OUR PULLING OUT OF THE DEBT RELIEF DRILL WOULD BE REGARDED IN DELHI AS A CLEAR NEGATIVE POLITICAL SIGNAL.

7. A UNILATERAL POSITION AGAINST RESCHEDULING (AS ADVOCATED BY SIMON) COULD ALSO DETRACT FROM CURRENT U.S. EFFORTS TO HAVE MAXIMUM CREDITOR PARTICIPATION IN A CHILE DEBT RESCHEDULING.

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8. YOU HAVE APPROVED A TRIP BY SIMON TO INDIA APRIL 15-21. ASSUMING THE ISSUE IS NOT RESOLVED SATISFACTORILY AT THE APRIL 8-10 CONSORTIUM MEETING, THIS WOULD GIVE SIMON A CHANCE TO HEAR INDIAN VIEWS FIRST-HAND. WE THINK THIS WOULD BE USEFUL.

9. OPTIONS

(1) CONCUR WITH SIMON'S RECOMMENDATIONS. THIS APPROACH WOULD AVOID CONGRESSIONAL DIFFICULTIES. HOWEVER, IT COULD DETRACT FROM OUR EFFORTS TO MAXIMIZE CREDITOR PARTICIPATION IN A CHILE RESCHEDULING EXERCISE. IT COULD ALSO DAMAGE RELATIONS WITH INDIA AND UNDERCUT THE PARTICIPATION BY OTHERS IN INDIA RESCHEDULING.

APPROVE

DISAPPROVE

(2) TELL SIMON WE SHOULD ONCE MORE RESCHEDULE THE INDIA DEBT THIS YEAR. THIS POSITION WOULD BOLSTER INDO-AMERICAN RELATIONS. MOREOVER, BY MOVING EARLY WE WOULD BE IN A BETTER POSITION TO SHAPE A BANK RECOMMENDATION MORE FAVORABLE TO THE U.S. THAN LAST YEAR WHEN OUR SHARE WENT UP MUCH MORE THAN OTHER CREDITORS. HOWEVER, TREASURY AND EB STRONGLY OPPOSE THIS AND WE WOULD FACE CONGRESSIONAL COMPLICATIONS.

APPROVE

DISAPPROVE

(3) FINESS THE DEBT ISSUE FOR NOW, AND ADVOCATE A VOLUNTARY "FREE FOREIGN EXCHANGE" APPROACH AT THE APRIL CONSORTIUM MEETING. WE LOSE NOTHING BY GIVING THE "FREE FOREIGN EXCHANGE" POSITION A CHANCE. IF IT WORKS, THE PROBLEM IS RESOLVED FOR THIS YEAR. IF WE CANNOT SELL THE IDEA AT THE APRIL MEETING, WE HAVE TIME TO REVIEW OUR POSITION ON DEBT RESCHEDULING BEFORE THE FORMAL CONSORTIUM MEETING IN JUNE.

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APPROVE

DISAPPROVE

10. RECOMMENDATION - EB, NEA, AND AID FAVOR THE THIRD OPTION AND HAVE DRAFTED THE LETTER TO SIMON ACCORDINGLY (TAB A).

TAB A

11. DEAR BILL: THANK YOU FOR YOUR LETTER OF FEBRUARY 27 AND YOUR VIEWS REGARDING DEBT RESCHEDULING FOR INDIA. AS YOU ARE AWARE, THIS IS A MATTER THAT I HAVE BEEN FOLLOWING VERY CLOSELY.

12. I CERTAINLY AGREE WITH YOU THAT THE ISSUE OF INDIA DEBT PRESENTS PROBLEMS, AND FULLY APPRECIATE THAT A RESCHEDULING OF INDIA'S DEBT VIA THE CONSORTIUM, AND PERHAPS EVEN A CREDITOR CLUB, IS NOW A QUESTIONABLE PROCEDURE IN VIEW OF CONGRESSIONAL ATTITUDES TOWARDS BOTH DEBT RELIEF IN GENERAL AND INDIA IN PARTICULAR. I WOULD THEREFORE

PREFER SOME SOLUTION WHICH WOULD AVOID RESCHEDULING ANY OF INDIA'S DEBT TO THE U.S. THIS YEAR, WHILE AT THE SAME TIME PERMITTING OTHER CREDITOR COUNTRIES TO RESCHEDULE DEBT IF THEY SO CHOOSE.

13. WITH THIS IN MIND WE ARE ATTEMPTING TO SUBSUME DEBT RELIEF IN THE LARGER FRAMEWORK OF IMPROVING THE QUALITY OF AID TO INDIA, PARTICULARLY, BY INCREASING THE AVAILABILITY OF "FREE FOREIGN EXCHANGE".

14. IN CONTACTS WITH WORLD BANK OFFICIALS AND OTHER CREDITORS, WE ARE RECOMMENDING THE VOLUNTARY PROVISION OF HIGH QUALITY AID WITH EACH CONSORTIUM MEMBER FREE TO USE ANY AND ALL METHODS (CASH, UNTIED AID, DEBT RELIEF, LOCAL

COST FINANCING, OR FOOD AND FERTILIZER AID) DEPENDING ON ITS INDIVIDUAL CAPACITY AND POLICY PREFERENCE.

15. IF THIS PROPOSAL IS ACCEPTED AT THE INFORMAL MEETING
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OF THE CONSORTIUM IN APRIL, WE WOULD BE ABLE TO COUNT TITLE I OF PL-480 AS OUR INPUT AND NOT PLAN TO RESCHEDULE ANY ADDITIONAL DEBT IN FY-1976, THUS AVOIDING CONGRESSIONAL PROBLEMS.

16. WHILE WORKING TOWARDS THIS OBJECTIVE, HOWEVER, I BELIEVE IT ESSENTIAL THAT WE RETAIN THE FLEXIBILITY TO JUDGE THE ISSUE OF U.S. DEBT RELIEF TO INDIA PER SE ON ALL ITS MERITS, SHOULD -- DESPITE U.S. EFFORTS -- THERE BE A MULTILATERAL PROPOSAL FOR SUCH RELIEF. GIVEN THE STATE OF INDO-U.S. BILATERAL RELATIONS, THE UNCERTAINTIES SURROUNDING OUR BILATERAL AID PROGRAM FOR FY-1976, AND THE POSSIBILITY THAT PRECIPITOUS U.S. ACTION COULD BE CITED BY OTHERS AS PRECLUDING THEIR PARTICIPATION IN DEBT RELIEF, THE U.S. WOULD BE GREATLY DISADVANTAGED SHOULD WE LOCK OURSELVES INTO A FIXED POSITION AT THIS TIME. AS INDIA'S LARGEST BILATERAL CREDITOR, WE HAVE A VESTED INTEREST IN INSURING THAT THE U.S. RETAINS ALL THE OPTIONS NORMALLY AVAILABLE TO CREDITORS IN THE TREATMENT OF OUTSTANDING DEBT.

17. INDIA, THE WORLD BANK, AND OTHER CREDITORS ARE AWARE OF THE REASONS WHY THE U.S. WISHES TO AVOID A RESCHEDULING IN THE CONSORTIUM FRAMEWORK. WHILE OUR PROPOSAL TO TREAT INDIA DEBT IN A CREDITOR CLUB, WHICH TREASURY SUGGESTED, HAS PROVEN UNSUCCESSFUL, I BELIEVE WE HAVE NEGATED THE PREVIOUSLY HELD PRESUMPTION THAT THE U.S. WOULD PARTICIPATE IN CONSORTIUM RELIEF EXERCISES ON AN AUTOMATIC AND INDEFINITE BASIS. IT WOULD BE UNPRODUCTIVE TO CARRY THE PRESUMPTION AGAINST RESCHEDULING FOR INDIA ANY FURTHER THAN WE

WOULD FOR ANY OTHER CREDITOR SINCE WE HAVE TRADITIONALLY MAINTAINED A WILLINGNESS TO REVIEW THE MERITS OF EACH SITUATION AS IT DEVELOPS. IN ADDITION, ANY UNILATERAL U.S. POSITION AGAINST RESCHEDULING FOR INDIA COULD, AT THIS TIME, DETRACT FROM CURRENT U.S. EFFORTS TO HAVE MAXIMUM CREDITOR PARTICIPATION IN THE PARIS CLUB EXERCISE FOR CHILE.

18. AS TO INFORMING CONGRESS, THE "WOLFF AMENDMENT" REQUIRES CONGRESSIONAL NOTIFICATION PRIOR TO ENTERING INTO NEGOTIATIONS FOR THE PURPOSE OF RESCHEDULING DEBT. UNLESS CONGRESS HEARS FROM US, THE PRESUMPTION IS THAT WE ARE NOT PLANNING TO ENTER SUCH NEGOTIATIONS. I OPPOSE ANY USG OF-CONFIDENTIAL

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FICIALS MAKING STATEMENTS TO CONGRESS SUGGESTING THAT THE USG WOULD UNDER NO CIRCUMSTANCES CONSIDER RESCHEDULING INDIA'S DEBT.

19. I LOOK FORWARD TO DISCUSSING THIS MATTER FURTHER WITH YOU PRIOR TO YOUR APRIL VISIT TO INDIA.

20. WITH BEST REGARDS,

21. TAB B - LETTER FROM SIMON OF FEBRUARY 27, 1975.

22. "DEAR HENRY: AFTER MY RECENT CONVERSATION WITH INDIAN FINANCE MINISTER SUBRAMANIAM I AM CONVINCED THAT WE NEED TO TAKE THE INITIATIVE THROUGH BOTH OUR DEPARTMENTS TO AVOID THE PRECISE FORM OF OUR AID BECOMING A MAJOR ISSUE BETWEEN INDIA AND THE UNITED STATES.

23. "AS YOU KNOW, I AM OPPOSED TO RESCHEDULING OF DEBTS OWED THE UNITED STATES AS A MEANS OF PROVIDING ECONOMIC AID. OUR SYSTEM CALLS FOR CONGRESSIONAL AUTHORIZATION AND APPROPRIATION OF AID. DEBT RESCHEDULING AVOIDS BOTH THE NORMAL CONGRESSIONAL PROCEDURES AND INCREASES THE BUDGET OUTLAY DEFICIT.

24. "HOWEVER, I RECOGNIZE THAT THERE ARE CERTAIN EMERGENCY SITUATIONS WHERE WE NEED THE FLEXIBILITY OF DEBT RESCHEDULING TO MEET UNEXPECTED ECONOMIC OR POLITICAL PROBLEMS. CHILE IS A CASE IN POINT. INDIA IS NOT SUCH A CASE. WE HAVE RESCHEDULED INDIAN DEBT EVERY YEAR SINCE 1968. I RECOGNIZE THAT DEBT RESCHEDULING WAS A WAY TO MAINTAIN A CERTAIN AMOUNT OF INDIA GOODWILL WHEN WE CHOOSE NOT TO HAVE A FRONT-DOOR AID PROGRAM, BUT THAT PERIOD IS PAST. IN FACT IN THIS YEAR WHEN U.S. FRONT-DOOR ASSISTANCE IS ESTIMATED TO INCREASE TO ABOUT A QUARTER OF A BILLION DOLLARS WE ARE IN THE BEST POSITION TO DISCONTINUE DEBT RESCHEDULING AS A FORM OF AID WITH MINIMUM IMPACT OF OUR

RELATIONS WITH INDIA AND MINIMUM IMPACT ON AID FLOWS --
INCLUDING RESCHEDULING -- FROM OTHER DONORS. THE ATTACHED
PAPER LAYS OUT A NUMBER OF OTHER REASONS FOR DISCONTINUING
U.S. RESCHEDULING NOW, ALTHOUGH I BELIEVE THAT THE BUDGE-
TARY AND CONGRESSIONAL REASONS ARE SUFFICIENT. IT WOULD,
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OF COURSE, BE VERY UNFORTUNATE IF CONGRESS REMOVED THE
FLEXIBILITY WHICH HAS ALLOWED US TO DEAL WITH EMERGENCIES
IN CHILE AND PAKISTAN BECAUSE WE ABUSE THIS INSTRUMENT BY
OVERUSE IN INDIA.

25. "HOWEVER, WHILE ACCOMPLISHING WHAT I HOPE IS OUR JOINT
OBJECTIVE OF DISCONTINUING ANNUAL U.S. RESCHEDULING OF
INDIAN DEBTS, WE BOTH WANT TO MINIMIZE PROBLEMS WITH INDIA
AND WITH THE OTHER DONOR COUNTRIES. TO AVOID THESE PROB-
LEMS WE BOTH NEED TO ACT AND TO GET OUR PEOPLE TO ACT NOW
-- WELL BEFORE THE ISSUE REACHES A SEMI-CRISIS STAGE.

26. "WE WANT TO AVOID OUR ACTION ON DEBT RESCHEDULING AF-
FECTING THE AMOUNT OF AID OTHER COUNTRIES PROVIDE INDIA
AND WE WANT TO AVOID A CONFRONTATION IN THE AID CONSOR-
TIUM. THERE IS NO REASON WHY OTHER COUNTRIES SHOULD NOT
PROVIDE ASSISTANCE THROUGH RESCHEDULING OF INDIAN DEBTS IF
THEY SO CHOOSE. NEITHER IS THERE ANY REASON WHY WHATEVER
FORM OTHERS MAY FIND MOST CONVENIENT SHOULD BE IMPOSED ON
US. I BELIEVE THAT, IF WE MAKE OUR POSITION CLEAR AND UN-
EQUIVOCAL NOW WHILE THERE IS STILL ADEQUATE TIME, OTHER
COUNTRIES WILL ADJUST THEIR ASSISTANCE PLANS SO AS NOT TO
DISADVANTAGE INDIA. I AM INFORMED THAT THE AID AND PL-480
PROGRAMS YOUR DEPARTMENT WILL BE PRESENTING TO CONGRESS
WILL PROVIDE FOR SUBSTANTIAL INCREASES IN FRONT-DOOR AS-
SISTANCE IN FY-75 AND FY-76 SO THE INDIANS WILL HAVE
LITTLE TO COMPLAIN ABOUT ON OUR BILATERAL ASSISTANCE.

27. "I PROPOSE TO TAKE THE FOLLOWING ACTIONS:

"(A) TO WRITE THE INDIAN FINANCE MINISTER FOLLOWING UP
MY CONVERSATIONS HERE STATING THAT WE WILL NOT BE ABLE TO
RESCHEDULE FOR FY-76 BUT THAT WE WILL COOPERATE WITH HIM
TO AVOID THIS SITUATION IMPEDING ASSISTANCE IN THIS FORM
FROM OTHERS;

"(B) TO FOLLOW UP PERSONALLY ON THIS POINT WHEN I VISIT
INDIA APRIL 15-21;

"(C) TO INSTRUCT OUR TREASURY ATTACHES IN KEY DONOR
COUNTRIES TO EXPLAIN OUR POSITION AND THE REASONS FOR IT
CLEARLY TO OTHER FINANCE MINISTRIES AND TO URGE THEM NOT
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TO CHANGE THE AMOUNT OF THEIR ASSISTANCE TO INDIA MERELY BECAUSE ONE MECHANISM IS PARTICULARLY DIFFICULT FOR US;

"(D) TO INFORM CONGRESS IN THE FIRST ANNUAL DEBT REPORT I AM SENDING FORWARD ON FEBRUARY 28 THAT WE DO NOT EXPECT TO RESCHEDULE U.S. LOANS TO INDIA IN FY-76 AND TO INSTRUCT TREASURY OFFICIALS TO CONFIRM THIS POSITION IN SUBSEQUENT TESTIMONY AND INFORMAL CONTACTS ON THE HILL.

28. "YOU MAY BE AWARE THAT BECAUSE OF STATEMENTS MADE BY SOME STATE DEPARTMENT OFFICIALS MANY OTHER GOVERNMENTS NOW BELIEVE THERE IS A DIFFERENCE OF OPINION ON THE INDIA RESCHEDULING ISSUE BETWEEN US. THUS MY ACTIONS ALONE MIGHT ONLY COMPLICATE THE PROBLEM WITH INDIA AND OTHER DONORS. HOWEVER, WITH YOUR SUPPORT I BELIEVE WE CAN GET INDIA AND OTHER DONORS TO AVOID A CONFRONTATION ON THIS ISSUE (I SHALL HANDLE THE IBRD WHICH COULD ALSO BE A PROBLEM). THE SORT OF ACTIONS ON YOUR PART WHICH WOULD GIVE US THE MAXIMUM -- AND I THINK EXCELLENT CHANCE -- OF DEFU-

SING THIS ISSUE ARE:

"(A) FOR YOU TO WRITE THE FOREIGN MINISTER OF INDIA EXPLAINING OUR DIFFICULTIES ON DEBT RESCHEDULING AND SUGGESTING A JOINT EFFORT TO HANDLE THIS ISSUE IN A WAY WHICH RESOLVES OUR CONGRESSIONAL PROBLEM WITHOUT SIGNIFICANTLY REDUCING ASSISTANCE TO INDIA;

"(B) TO FOLLOW UP ON THIS DURING THE JOINT COMMISSION MEETING IN MID-MARCH;

"(C) TO INSTRUCT THE EMBASSIES IN KEY DONOR COUNTRIES TO MAKE APPROACHES TO THE FOREIGN MINISTRIES AND OTHER KEY AGENCIES ALONG THE LINES OF WHAT I AM SUGGESTING FOR THE TREASURY ATTACHES (A JOINT INSTRUCTION TO EMBASSIES WOULD BE APPROPRIATE);

"(D) TO INSTRUCT YOUR OFFICIALS WHO WILL PROVIDE WRITTEN JUSTIFICATION AND TESTIMONY TO THE CONGRESS ON AID AND PL-480 ASSISTANCE TO POINT OUT THAT DISCONTINUING DEBT RESCHEDULING IN FAVOR OF APPROPRIATED AID IS OUR POLICY IN INDIA FOR FY-76.

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29. "AS THE INTERNATIONAL DIALOGUE EVOLVES ON THIS ISSUE IT WILL BE NECESSARY FOR OUR OFFICIALS TO KEEP IN CLOSE TOUCH

AND FOR THE EMBASSY IN DELHI TO KEEP IN CLOSE TOUCH WITH THE INDIANS. I HAVE ASKED ASSISTANT SECRETARY COOPER TO COORDINATE TREASURY'S EFFORTS TO RESOLVE THIS ISSUE IN A WAY WHICH RAISES A MINIMUM OF PROBLEMS FOR THE INDIANS.

30. "WITH BEST REGARDS, SINCERELY YOURS, SIGNED WILLIAM E. SIMON."

31. ATTACHMENT

32."ARGUMENTS AGAINST USING DEBT RELIEF IN THE AID TO INDIA CONSORTIUM

33."(A) OBTAINING AID THROUGH NEW COMMITMENTS RATHER THAN DEBT RELIEF MAKES SENSE FOR INDIA IF IT WISHES TO MAXIMIZE THE CONTRIBUTION FROM PROSPECTIVE NEW MEMBERS OF THE CONSORTIUM, IRAN AND KUWAIT, WHO HAVE NO DEBTS TO RESCHEDULE.

"(B) THE TERMS OF NEW AID COMMITMENTS IN RECENT YEARS ARE GENERALL SUPERIOR TO THOSE OF DEBT RELIEF.

"(C) WITH THE EXCEPTION OF LAST YEAR, PREVOUT DEBT RELIEF EXERCISES WERE DESIGNED TO LENGTHEN THE RELATIVELY HARD TERMS OF PAST AID COMMITMENTS BY THE EUROPEANS AND JAPAN. SINCE INDIA'S EXTERNAL DEBT NOW CARRIES A GRANT ELEMENT

OF 66 PERCENT, THAT PROCESS HAS BEEN COMPLETED. WITH IT, THE CONSORTIUM'S ROLE FOR DEBT RELIEF IS NO LONGER VALID.

"(D) LAST YEAR'S DEBT RELIEF EXERCISE WAS UNDERTAKEN TO PROVIDE INDIA WITH "FREE FOREIGN EXCHANGE" TO PURCHASE FOOD AND FERTILIZER. WE CAN PROVIDE MORE AID FOR FOOD AND ON BETTER TERMS BY USING PL-480.

"(E) ALL DEBT RELIEF AGREEMENTS MUST NOW BE BEFORE CONGRESS 30 DAYS PRIOR TO IMPLEMENTATION. LAST YEAR'S AGREEMENT WILL BE SENT TO THE HILL WHEN THE INDIANS SIGN THE BILATERAL AGREEMENT. SHOULD CONGRESS LINK OUR SHARE TO INDIA'S CONFIDENTIAL

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SIGNING THE NUCLEAR NON-PROLIFERATION TREATY, THIS WOULD THROW THE ENTIRE DEBT RELIEF EXERCISE INTO DISARRAY." INGERSOLL

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